

P-421/CP-87-216 ORDER ESTABLISHING RATES FOR POLLING AND ADOPTING
LOWER PRICED ALTERNATIVE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm
Tom Burton
Marshall Johnson
Cynthia A. Kitlinski
Dee Knaak

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition of Certain
Subscribers in the Cannon Falls Exchange for
Extended Area Service to the Minneapolis/St.
Paul Metropolitan Calling Area

ISSUE DATE: September 2, 1994

DOCKET NO. P-407, 421/CP-87-216

ORDER ESTABLISHING RATES FOR
POLLING AND ADOPTING LOWER
PRICED ALTERNATIVE

PROCEDURAL HISTORY

On December 14, 1993, the Commission issued its ORDER REQUIRING REVISED COST STUDIES AND PROPOSED RATES, adopting the Department's recommendations that the local exchange companies (LECs) involved in this matter be required to refile cost studies to reflect the lower, stipulated cost of money for USWC and the cost of money and access rates from the Vista rate case, Docket No. P-405/GR-93-2. The Commission's Order affected this and a companion matter, the Northfield EAS petition (Docket No. P-421/CP-87-352).

In January 1994, the LECs refiled their cost studies and proposed rates and on February 2, 1994, the Department submitted a recommendation that the companies refile using the lower stimulation factor of 4 that the Commission had recently approved for use in the settle-up filings in the Belle Plaine, Cologne, New Prague and Waconia EAS dockets and the pending Big Lake-Metropolitan Calling Area (MCA) EAS docket.

On March 23, 1994, the Commission issued its Order directing the use of the stimulation factor of 4 in the Cannon Falls and Northfield dockets and requiring the refiling of cost studies and proposed rates.

Between April 25 and June 1, 1994, the LECs filed their revised cost studies and proposed rates to reflect the stimulation factor of 4.

On July 5, 1994, the Department submitted its comments to the Commission. No party submitted comments in response to the Department's report.

On August 23, 1994, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

In this Order, the Commission will address several issues affecting the establishment of rates for EAS between Cannon Falls and the metropolitan calling area (MCA). Then, the Commission will adopt rates consistent with its treatment of those issues.

Finally, the Commission will address USWC's lower priced alternative to the proposed EAS and other issues bearing on what information should be provided Cannon Falls subscribers as part of the balloting process.

1. Rate Impacts Due to the Addition of Zimmerman and Monticello to the MCA

For every toll call between the Cannon Falls exchange and the MCA, the interexchange (long distance) carriers (IXCs) pay a toll access charge to GTE, the local exchange company (LEC) serving Cannon Falls and to the LEC that serves the exchange where the call terminates. Access charges are payments to the LECs for the use of their facilities for originating and terminating such calls.

Due to polling results confirmed in recent months, the Zimmerman and Monticello exchanges have become a part of the MCA. If the current Cannon Falls petition is likewise successful, that exchange will also join the MCA. As a consequence, calls from Cannon Falls to Zimmerman and Monticello that were formerly toll calls will become local calls for which no toll access charge, of course, would be paid.

The LEC serving the Zimmerman exchange, Sherburne County Rural Telephone Company (SCRTC), has filed a request to recover the lost access contribution it claims it would experience for the loss of toll calling between the Zimmerman and Cannon Falls exchanges. SCRTC submitted traffic data supporting its claim. In short, SCRTC is requesting that it receive a slice of the Cannon Falls EAS revenue requirement adequate to offset its access charge loss, thereby maintaining it (SCRTC) income neutral as required by Minn. Stat. § 237.161, subd. 3 (b) (1992).

In its cost study, GTE did not include an amount to cover the lost toll contribution for the Zimmerman-Cannon Falls route. Using the data supplied by SCRTC, however, the Department has calculated the amount of access contribution that GTE collects from IXCs for toll calling between the Zimmerman and Cannon Falls exchanges. According to the Department's calculation, which the Commission finds valid, inclusion of this amount in the EAS revenue requirement and reimbursement of GTE and SCRTC for its loss of Cannon Falls-related access contribution can be done by increasing GTE's proposed monthly EAS rates for Cannon Falls subscribers by one cent.

In these circumstances, the Commission will allow the inclusion of the Zimmerman exchange in the calculation of the proposed rates. The size of the MCA and the LECs' specific costs are in a state of flux. There has to be a cutoff point to use in calculating the proposed rates. In this case, the Department was able to calculate the effect of the Zimmerman-Cannon Falls lost access contribution on the proposed rates for EAS because information was filed in a timely manner.

2. GTE and United Earnings Investigations

On April 18, 1994, the Department reached a settlement with GTE concerning the level of GTE's earnings for its Minnesota operations. The Commission approved the settlement in its July 11, 1994 ORDER ADOPTING SETTLEMENT AND REDUCING RATES AND REQUIRING NOTICE TO CUSTOMERS AND FILING OF TARIFFS in Docket No. P-407/CI-94-366. In the settlement, GTE agreed to a 9.42 percent overall rate of return and reductions to several of its access rates.

On May 24, 1994, the Department reached a settlement with United concerning the level of United's earnings. In the settlement, United agreed to a 10.05 percent overall rate of return and a reduction to its rate for local transport. The Commission approved the settlement in its July 19, 1994 ORDER ADOPTING SETTLEMENT REDUCING RATES AND REQUIRING NOTICE TO CUSTOMERS.

The question is whether these developments, which occurred *after* the companies had submitted their cost studies and proposed rates for the third time should be taken into account in adopting Cannon Falls' EAS rates. And more specifically, do these changes warrant requiring the companies to refile their cost studies and proposed rates to reflect the lowering of GTE's rate of return and access rates and United's rate of return and local transport rate.

Minn. Stat. § 237.161, subd. 3 (b) 1992 requires that the Commission "establish rates that are income neutral for each affected telephone company at the time at which the Commission determines the extended area service rates." In addition, the statute requires that the Commission consider the interests of all parties when determining the EAS rates. Because the level of traffic, the size of the metro calling area, and the cost factors are not constants, rate revision could go on indefinitely. This is not what the statute contemplates. To prevent on-going delay in proceeding with the petitioners' petition, there must be a reasonable cutoff point after which EAS rates are set and changes potentially affecting the rates are not considered.

In this case, that cutoff point has been reached. The cost studies and proposed rates filed by the companies are the *third* set of revised studies and proposed rates filed in this matter.³ The Commission will not send the companies back to revise their cost studies and proposed rates a fourth time.

The changes resulting from resolution of the GTE and United earnings investigations can be reflected in the rates approved by the Commission without delaying the processing of this petition. In addition to noting the cited new developments, the Department substituted GTE's new rate of return (ROR) and access rates and United's new ROR and local transport rate in the cost studies filed by the companies and submitted revised rates based on those changes.

3. Rates for Polling

³ On August 31, 1993, the Department submitted its report and recommendations on the LECs' first set of cost studies and proposed rates. In its report, the Department recommended that the USWC and Vista cost studies be refiled to reflect the lower, stipulated cost of money for USWC and the cost of money and access rates from the Vista rate case, Docket No. P-405/GR-93-2.

On December 14, 1993, the Commission issued its Order, adopting the recommendations of the Department and requiring the refiling of cost studies and proposed rates.

In January 1994, the LECs refiled their cost studies and proposed rates (second set) and on February 2, 1994, the Department submitted a recommendation that the companies refile using the lower stimulation factor of 4 that the Commission had recently approved for use in the settlement filings in the Belle Plaine, Cologne, New Prague and Waconia EAS dockets and the pending Big Lake-MCA EAS docket.

On March 23, 1994, the Commission issued its Order adopting the use of the stimulation factor of 4 in the Cannon Falls docket and requiring the refiling of cost studies and proposed rates for the third time. The cost studies and proposed rates filed in response to that Order are the rates under consideration in this Order.

Both GTE and the Department proposed rates that reflected the reduction in GTE's ROR and access charges and the reduction in United's ROR and local transport rates from their recent earnings investigations. The rates of both parties also reflected the inclusion of the Zimmerman-Cannon Falls lost access contribution.

However, only GTE's proposed rates reflected a further factor. As a result of GTE's earnings investigation, GTE's Cannon Falls-MCA revenue requirement decreased. This decrease in revenue requirement is expected to effect a decrease in the rate at which Cannon Falls subscribers will choose the lower cost alternative over EAS. The Department's rates do not account for the altered take rate whereas GTE's proposed rates do reflect that element.

Accordingly, the Commission will approve GTE's proposed EAS rates for Cannon Falls subscribers.

Customer Class

Resident	\$45.60
Business	\$91.20

4. Telephone Numbers

The Cannon Falls exchange (area code 507) has one prefix: 263. This prefix is also in use in the (612 area code) MCA: the Big Lake exchange, which also has a petition pending for the MCA.

Because Cannon Falls and the Big Lake exchange are in different LATAs and have different area codes, there is currently no confusion. However, since EAS calls are completed with 7-

digit dialing, there cannot be two exchanges with the same prefix in the same local calling area.

The questions are: 1) which prefixes (Cannon Falls' or Big Lake's) should be changed to avoid this conflict and 2) when should this decision be made: at this time or later in this proceeding if the subscribers vote to have the EAS installed.

Between Big Lake and Cannon Falls it is a close question. Neither is currently a member of the MCA. Both are petitioning to become part of the MCA.⁴ In these circumstances, the Commission finds that it would be more appropriate for the exchange that is requesting cross-LATA service (Cannon Falls) to change its prefix. As the out-of-LATA petitioner, Cannon Falls is the more proximate cause of the conflict in prefixes than Big Lake. Cannon Falls, therefore, should make the accommodation and change its prefix.

In light of this analysis of the substance of the issue, the Commission finds that it is appropriate to announce its decision at this time so that Cannon Falls subscribers being polled will be informed of one of the consequences of establishing the proposed EAS. Some subscribers in the Cannon Falls exchange may view this circumstance as a material consideration in determining how they will vote on this matter.

Accordingly, the Commission will require that Cannon Falls subscribers be informed as part of the polling process that their telephone numbers will be changed (at least the prefix portion of those numbers) if the proposed Cannon Falls-MCA EAS is approved.

5. Lower Priced Alternative

When the calling area sought is the MCA, Minn. Stat. § 237.161, subd. 1 (c) (1992) requires that the LEC serving the petitioning exchange must offer its subscribers local measured service or another lower cost alternative to flat-rate EAS service.

GTE proposed the Community Plus Plan (CPP) as adopted by the Commission in the Lindstrom and Delano EAS dockets. That plan provides for a monthly charge for a residential subscriber of \$3.85 (\$7.70 for business customers) and a per minute charge of 25 cents (12.5 cents between 10:00 p.m. and 8:00 a.m.). These per minute charges apply only to calls into the metro calling area. (Calls within the Cannon Falls exchange would continue to be flat-rated.)

In calculating the number of subscribers that will opt for the CPP, GTE reviewed the messages, minutes of use (MOU) and toll revenues for each of its Cannon Falls subscribers for their calls into the MCA. GTE stimulated the calling of all subscribers and then compared the stimulated MOU, messages and revenues that would be generated under the CPP rates to the flat-rate. GTE assumed that all subscribers would opt for the CPP if they would be economically better off paying on a per call basis than paying the flat-rate (i.e. if their bill would be less under the CPP, they were assigned to the CPP). Calling from Cannon Falls to the MCA is skewed (many subscribers make few calls and a few subscribers make many calls), therefore, the projected take rate for the CPP is quite high. Because the flat-rate for EAS is dependent on the number of CPP subscribers, the company ran its iterations through a computer model until the take rates for the CPP and for flat-rate EAS generated the revenues necessary to achieve the monthly EAS revenue requirement.

The Commission has reviewed the Company's proposed rates for its lower priced alternative, finds them reasonable, and will approve them.

⁴ Compare the Commission's decision in the Northfield case which also involved conflicting prefixes. In Northfield, the Commission found that as between an exchange that was already part of the MCA and an exchange petitioning to join the MCA, the petitioner should change its prefix.

As part of the balloting process, Cannon Falls subscribers should be informed that this lower priced alternative will be available if EAS is approved, including the specific rates at which this service would be available. The Commission will order that the ballots provided Cannon Falls subscribers must contain this information.

6. Federal Contingency

The Cannon Falls-MCA EAS route would be an interLATA route. GTE is prohibited from providing interLATA service under a consent decree⁵ and the Modified Final Judgement (MFJ)⁶ prohibits USWC from carrying interLATA traffic. Before the Commission could order USWC to provide the service, GTE and USWC would have to request and receive authority from the federal courts to carry such traffic. If Cannon Falls subscribers vote in favor of the proposed EAS, the Commission will require GTE and USWC to seek waivers from the federal courts.

To keep the Cannon Falls subscribers fully aware of this factor, the Commission will require that the polling materials include a brief explanation that the EAS will be installed if a majority of voting subscribers are in favor of the EAS and USWC obtains a waiver from the federal courts.

ORDER

1. The cost studies and proposed rates filed by Eckles, Scott-Rice, Vista, and USWC are approved.
2. The impact of the Zimmerman exchange becoming a part of the metro calling area (MCA) as calculated by the Department is approved.

⁵ United States v. GTE Corporation, Civil Action No. 83-1298 (1984).

⁶ United States v. Western Electric Co., Inc., 569 F. Supp.900, 1107-1108 (D.D.C. 1983), aff'd sub nom., Maryland v. United States, 460 U.S. 1001 (1983).

3. The cost study and proposed rates filed by United are approved as modified by the Department.
4. The cost study filed by GTE is approved with the modifications made by the Department to reflect the results of the GTE and United earnings investigation.
5. The EAS rate additives and the lower cost alternative, therefore, for Cannon Falls are as follows:

	<u>Flat Rate</u>	<u>Community Plus Plan</u>
Resident	\$45.60	\$3.85*
Business	\$91.20	\$7.70*

*Community Plus Plan subscribers would also pay a per minute of use charge of 25 cents per minute between 8:00 a.m. and 10:00 p.m. and 12.5 cents per minute between 10:00 p.m. and 8:00 a.m. for calls into the metro calling area.

6. The polling materials sent to subscribers in the Cannon Falls exchange shall include the information that if EAS is approved, all subscribers in the Cannon Falls exchange will have to change their telephone numbers.
7. The polling materials sent to subscribers in the Cannon Falls exchange shall also include a statement to the effect that installation of the EAS is contingent on the approval of the service by a majority of those subscribers voting and the grant of waivers of consent decree requirements by the federal courts.
8. GTE shall cooperate with the Commission Staff and Commission contractor to provide a customer list (one deliverable address for each access line) and other information needed to poll the Cannon Falls exchange.
9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)